

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

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R 221732Z AUG 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 2345

INFO AMEMBASSY LONDON

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DEPARTMENT PASS TREASURY AND FRB AND CEA

E.O. 11652: N/A

TAGS: ECON, EFIN, GE

SUBJECT: CHANCELLOR AND KEY MINISTERS ATTACK ECONOMIC
AND FINANCIAL PROBLEMS

1. FINANCIAL AND ECONOMIC PROBLEMS AND THEIR POTENTIAL
SOLUTIONS WERE THE SUBJECT OF A 9-HOUR-LONG MEETING
CHANCELLOR SCHMIDT HELD ON AUGUST 20 AT HIS BRAHMSEE
VACATION HOME IN SCHLESWIGHOLSTEIN. ATTENDING THE
MEETING WERE FINANCE MINISTER APEL, ECONOMICS MINISTER
FRIDERICHSEN, FOREIGN MINISTER GENSCHER, LABOR MINISTER
ARENKT AND THE BUNDES BANK'S KLASSEN AND EMMINGER. WHILE
GOVERNMENT SPOKESMAN GRUNEWALD SAID NO FINAL DECISIONS
HAD BEEN TAKEN AND THAT THESE WOULD COME OUT OF NEXT
WEEK'S FULL CABINET MEETING, THERE WERE PLENTY OF LEAKS
ON WHAT TOOK PLACE. CLEARLY INDICATED WAS THAT A NEW
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"KONJUNKTUR" PROGRAM TO STIMULATE THE ECONOMY WAS AGREED

TO. IT BEARS THE RELATIVELY MODEST PRICE TAG OF DM 5.5 MILLION, OR A BIT MORE THAN EARLIER BRUITED ABOUT, AND AS ANTICIPATED, WILL BE PRIMIARLY DIRECTED AT HELPING THE CONSTRUCTION INDUSTRY. FEDERAL, STATE AND LOCAL GOVERNMENTS ALL WILL BE PARTICIPANTS IN THE PROGRAM, WITH THE COST TO BE COVERED LARGELY BY THE "COUNTERCYCLICAL RESERVES" HELD IN THE BUNDES BANK.

2. ALSO TREATED IN SOME DETAIL WAS THE 1975 SUPPLEMENTARY BUDGET, WHICH IS REPORTEDLY SLATED TO REACH THE SURPRISINGLY HIGH FIGURE OF DM 15 BILLION. THIS AMOUNT IS NECESSITATED BY A RECESSION-INDUCED REDUCTION IN EARLIER ANTICIPATED TAX REVENUE BY SOME DM 8 BILLION AND BY INCREASED EXPENDITURES OF DM 7 BILLION. OF THIS LATTER, DM 5 BILLION MAY BE ATTRIBUTED TO UNEXPECTEDLY HIGH UNEMPLOYMENT BENEFIT PAYMENTS. THE BALANCE OF DM 2 BILLION IS CAUSED BY HIGHER THAN PREDICTED OUTLAYS FOR CHILDREN'S ALLOWANCES AND THE INTEREST PAYMENTS ON THE CREDIT TO POLAND. IT WAS STATED THAT THE FINANCING OF THE SUPPLEMENTARY BUDGET ON THE CAPITAL MARKET WOULD NOT BE DIFFICULT. FEDERAL BORROWING IN 1975 IS NOW ACKNOWLEDGED TO BE IN THE DM 40 BILLION RANGE -- THE HIGHEST EVER FOR THE FRG.

3. THERE WERE ALSO PRELIMINARY DISCUSSIONS OF THE 1976 BUDGETARY SITUATION AT THE BRAHMSEE. IT IS SAID THAT AN INCREASE IN FEDERAL GOVERNMENT EXPENDITURES OF 7 PERCENT OVER THE 1975 LEVEL WAS STATED AS A GOAL. (THIS COMPARES WITH AN APPROXIMATE 12 PERCENT EXPENDITURE RISE IN 1975.) BASED ON THIS OPTIMISTIC GOAL, THE NET BORROWING REQUIREMENT TO FINANCE THE 1976 REVENUE SHORT-FALL, EVEN ASSUMING A DECENT ECONOMIC RECOVERY, WAS JUDGED TO BE AT LEAST DM 40 BILLION.

4. THE ENORMITY OF THE BUDGETARY DEFICITS FOR THIS YEAR AND NEXT LED TO AN EXAMINATION BY THE CHANCELLOR

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AND ASSEMBLED MINISTERS OF THE MANAGEMENT OF THE FISCAL PROBLEM. AS RECOMMENDED BY THE FINANCE MINISTER'S ADVISORS AND THE COUNCIL OF ECONOMIC ADVISORS A DRASIC AUSTERITY APPROACH TO BUDGET FORMULATION WAS REPORTEDLY EMPHASIZED. A FINANCE MINISTRY LIST OF VULNERABLE ITEMS IS SAID TO HAVE BEEN PREPARED IN THIS CONNECTION WHICH INCLUDES SUCH ITEMS AS INDUSTRIAL TRAINING PROGRAMS, "AGRICULTURE POLICY", UNSPECIFIED PUBLIC SERVICES, AND A REDUCTION IN PERSONNEL EXPENDITURES. ALSO RUMORED WAS THAT THERE WOULD BE NEW LEGISLATION THAT WOULD AUTHORIZE CURTAILMENT OF LEGALLY FIXED EXPENDITURES.

5. THE PRESENCE OF FOREIGN MINISTER GENSCHER WAS OSTENSIBLY INTENDED TO STRESS THE COALITION NATURE OF THE POLICY EMERGING FROM THE BRAHMSEE GATHERING AND

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INDEED IT ECHOED MANY OF THE POINTS THAT ECONOMICS MINISTER FRIDERICH HAS BEEN TALKING ABOUT RECENTLY. ALSO, IT SEEMS TO FALL IN LINE WITH CDU ECONOMIC SPOKESMAN GERHART STOLTENBERG'S RECENT PUBLIC STATEMENTS ON THE NEED FOR BUDGETARY STRINGENCY AND CLOSE ATTENTION TO DEALING WITH THE BURGEONING DEFICITS. BOTH HE AND CDU CHANCELLOR CANDIDATE KOHL HAVE INDICATED THEY WILL NOT STAND IN THE WAY OF THE "BUDGET REORGANIZATION" ALTHOUGH THEY SAID THEY HAD NO INTENTION OF OVERLOOKING WHAT THEY CONSIDER HAS BEEN THE COALITION GOVERNMENT'S POOR ECONOMIC MANAGEMENT.

6. COMMENT: WHILE SOCIAL WELFARE EXPENDITURES ACCOUNT FOR MUCH OF THE BUDGETARY GROWTH TAKING PLACE, THEY ARE AN ESPECIALLY SENSITIVE AREA FOR AN SPD GOVERNMENT TO TACKLE IN A PRE-ELECTION PERIOD. IT IS DOUBTFUL, THEREFORE, THAT THESE WILL BE DEEPLY EFFECTED. IT IS GOOD POLITICS IN GERMANY, HOWEVER, TO PROJECT THE IMAGE OF TOUGH PARSIMONY AND THIS IS BEING LAID ON HEAVILY AT PRESENT.

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